

City of Ketchikan, Alaska

**COMPLIANCE REPORT SECTION
DECEMBER 31, 2015**

CITY OF KETCHIKAN

Compliance Report Section

Year Ended December 31, 2015

This section includes the following:

	<u>Page</u>
Independent Auditors Report	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
State Single Audit Reports	
Schedule of State Financial Assistance	3
Notes to the Schedule of Expenditures of State Financial Assistance	5
Independent Auditors Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance and Report on the Schedule of State Financial Assistance Required by the <i>State of Alaska Audit Guide and Compliance Supplement for State Single Audits</i>	7
State Schedule of Findings and Questioned Costs	10

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Ketchikan, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ketchikan, Alaska, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Ketchikan, Alaska's basic financial statements, and have issued our report thereon dated December 6, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Ketchikan, Alaska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ketchikan, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ketchikan, Alaska's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ketchikan, Alaska's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Teuscher Walpole, LLC

December 6, 2016

CITY OF KETCHIKAN, ALASKA
SCHEDULE OF STATE FINANCIAL ASSISTANCE
Period Ended December 31, 2015

Description	Grant/Award Number	Fund	Major Program	Program or Award Amount	Receivable or (Unearned) at Jan. 1, 2015	2015 Receipts	2015 Expenditures	Adjustments	Receivable or (Unearned) at December 31, 2015
STATE OF ALASKA DEPARTMENT OF COMMERCE.									
COMMUNITY AND ECONOMIC DEVELOPMENT									
State Revenue Sharing	N/A	101	M	467,635	0	467,635	467,635	0	0
Reconstruction of Downtown Bridges and Trestles	10-DC-019	310		5,000,000	0	141,811	141,811	0	0
City Bridges - Water St #2	13-DC-618	310		9,250,000	640	268,018	267,379	0	0
Berths I & II Replacement Proj	13-DC-603	510	M	7,000,000	23,460	119,341	277,647	0	181,766
Medical Center Improvement	13-DC-546	290	M	3,000,000	43,505	80,520	37,015	0	0
Medical Center Improvement	14-DC-072	340	M	15,000,000	6,789,199	12,861,314	6,072,115	0	0
Thomas Basin Seawall	15-RR-045	310		1,300,000	0	1,300,000	1,300,000	0	1,300,000
				41,017,635	6,856,804	13,938,639	8,563,602	0	1,481,766
STATE OF ALASKA DEPARTMENT OF EDUCATION									
2015 Grant in Aid - Museum	N/A	101		8,780	(8,780)	0	8,780	0	0
2015 Public Library Assistance Grant	PLA-15-750-41	101		6,650	(6,650)	0	6,650	0	0
2016 Public Library Assistance Grant	PLA-16-750-01	101		6,650	0	6,650	0	0	(6,650)
2015 Continuing Education Grant		101		2,000	0	2,000	2,000	0	0
2015 Early Literacy Playspace	N/A	101		400	0	400	400	0	0
				24,480	(15,430)	9,050	17,830	0	(6,650)
STATE OF ALASKA DEPT. OF ENVIRONMENTAL CONSERVATION									
14 Hazardous Materials Training	N/A	101		8,500	8,499	8,499	0	0	0
15 Hazardous Materials Training	N/A	101		7,000	0	6,991	6,991	0	6,991
Tongass Ave Water & Sewer Replacement, Phase 2/3	48190	520		1,852,750	185,275	185,275	0	0	0
Jackson/Monroe Water/Sewer	48195	505/520	M	6,368,438	1,100,661	1,056,365	0	(44,296) ?	0
Alaska Ave Water/Sewer	48194	505/520		2,540,606	454	454	0	(0)	0
				10,777,294	1,294,889	1,250,593	6,991	(44,296)	6,991
STATE OF ALASKA DEPARTMENT OF PUBLIC SAFETY									
Alaska Police Standards Council	N/A	101		6,347	2,347	2,347	0	0	0
FY 15 Revenue Share Liquor License	N/A	101		31,250	0	31,250	31,250	0	0
				37,597	2,347	33,597	31,250	0	0
STATE OF ALASKA DEPARTMENT OF REVENUE									
FY 15 Fish Business/Landing Tax	891095	240		0	0	30,608	30,608	0	0
FY 15 Fisheries Bus Tax Share	N/A	320	M	0	0	237,876	237,876	0	0
CPV Funds	N/A		M	2,032,375	(1,815,985)	2,032,375	1,547,378	0	(2,300,982)
				2,032,375	(1,815,985)	2,300,859	1,815,862	0	(2,300,982)
STATE OF ALASKA DEPARTMENT OF TRANSPORTATION									
Mountain Point Deferred Maint Funds	N/A			294,117	(294,117)	0	0	0	(294,117)
BHS Drive Down Ramp & Floats 1N and 9.	14-HG-002	320	M	4,787,500	601,675	1,798,550	1,581,752	0	384,877
Hole in the Wall Replacement	16-HG-002	320		1,310,000	0	643,212	643,212	0	0
				5,081,617	307,558	1,798,550	1,581,752	0	90,760
STATE OF ALASKA DEPARTMENT OF ADMINISTRATION									
PERS Contribution	N/A		M	2,455,691	0	2,455,691	2,455,691	0	0
				2,455,691	0	2,455,691	2,455,691	0	0

CITY OF KETCHIKAN, ALASKA
SCHEDULE OF STATE FINANCIAL ASSISTANCE
Period Ended December 31, 2015

Description	Grant/Award Number	Fund	Major Program	Program or Award Amount	Receivable or (Unearned) at Jan. 1, 2015	2015 Receipts	2015 Expenditures	Adjustments	Receivable or (Unearned) at December 31, 2015
State of Alaska									
Pass through Ketchikan Gateway Borough									
Hole in the Wall	N/A	240/320		200,000	21,617	199,423	177,806	0	0
				<u>200,000</u>	<u>21,617</u>	<u>199,423</u>	<u>177,806</u>	<u>0</u>	<u>0</u>
State of Alaska Department of Military & Veterans Affairs									
Division of Homeland Security & Emergency Management									
FY15 Local Emergency Planning Committee	15LEPC-GR35602	101		18,663	158	17,405	17,544	(297) ^	0
FY16 Local Emergency Planning Committee	20LEPC-GY16	101		19,018	0	1,868	4,180	0	2,311
				<u>37,681</u>	<u>158</u>	<u>19,273</u>	<u>21,724</u>	<u>(297)</u>	<u>2,312</u>
				<u>\$ 61,664,370</u>	<u>\$ 6,651,958</u>	<u>\$ 22,005,675</u>	<u>\$ 14,672,507</u>	<u>\$ (44,593)</u>	<u>\$ (725,803)</u>
TOTAL STATE OF ALASKA FINANCIAL ASSISTANCE									

? Adjustment for ineligible expenses for the Jackson Monroe Water/Sewer grant per ADEC.

! CPV funds disbursed to other funds for specific projects. Not actually unearned revenue, instead this amount at 12/31/15 is restricted cash.

^ Adjustmets for ineligible expenses for LEPC grant. See notes in grant file receivables. \$157.50, \$137.40, and \$2.00

CITY OF KETCHIKAN, ALASKA

NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

December 31, 2015

Note 1 – Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of State Financial Assistance includes the state grant activity of the City of Ketchikan, Alaska and is presented on the basis of generally accepted accounting principles (GAAP) as applied to governmental units. The information in this schedule is presented in accordance with the requirements of the State of Alaska Audit Guide and Compliance Supplement for State Single Audits. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 – Commercial Passenger Excise Tax

Commercial Passenger Excise Tax Funds are to be used for the purpose of supporting tourism related to cruise ship traffic. In 2015, the City received Commercial Passenger Excise Tax Funds in the amount of \$2,032,375. The funds restricted for the purposes noted above as of December 31, 2015 are \$2,300,982.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM,
REPORT ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF
STATE FINANCIAL ASSISTANCE REQUIRED BY THE *STATE OF ALASKA GUIDE AND
COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS*

To the Honorable Mayor and Members of the City Council
City of Ketchikan, Alaska

Report on Compliance for Each Major State Program

We have audited the City of Ketchikan, Alaska's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the City of Ketchikan, Alaska's major state programs for the year ended December 31, 2015. The City of Ketchikan, Alaska's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Ketchikan, Alaska's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City of Ketchikan, Alaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the City of Ketchikan, Alaska's compliance.

Opinion on Each Major State Program

In our opinion, the City of Ketchikan, Alaska, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of the City of Ketchikan, Alaska, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Ketchikan, Alaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ketchikan, Alaska's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of State Financial Assistance Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ketchikan, Alaska, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Ketchikan, Alaska's basic financial statements. We issued our report thereon dated December 6, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial

statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

Teuscher Walpole, LLC

December 6, 2016



City of Ketchikan, Alaska
State Schedule of Findings and Questioned Costs
Year Ended December 31, 2015

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
• Significant deficiency identified?	<u> </u> Yes	<u> X </u>	No
• Material weakness identified?	<u> </u> Yes	<u> X </u>	No
• Noncompliance material to financial statements?	<u> </u> Yes	<u> X </u>	No

State Financial Assistance

Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>		
Internal control over major programs:			
• Significant deficiency identified?	<u> </u> Yes	<u> X </u>	No
• Material weakness identified?	<u> </u> Yes	<u> X </u>	No
Dollar threshold used to distinguish a state major program:	<u>\$100,000</u>		

Section II – Financial Statement findings

The City of Ketchikan, Alaska did not have any findings that related to the financial statements.

Section III – State Award findings and questioned costs

The City of Ketchikan, Alaska did not have any findings that related to state awards.

Prior Year Findings

Finding: 2014-001, Duplicate request for reimbursement

This finding has been resolved. The City has put in place a process to reconcile its accounting records to the grant reports and schedules of financial assistance on a timely basis. There have also been additional reviews added to the review process.